



As I sell

THE STOCK MARKET AND REAL ESTATE

THE entire world was shocked on September 24 by the radio announcement that President Eisenhower had suffered a heart attack. I think there have been few times in the last few decades when the great mass of people here and abroad were so deeply touched and so sincere in their wishes for a speedy recovery. President Eisenhower has apparently made a deep impression on the American public and on the world in his attempt to meet issues squarely and to solve them honestly without recourse to political chicanery.

The first full session of the stock market after the news broke showed dramatically the confidence which the investing public had had in his leadership. The serious doubt as to whether he could continue to direct the domestic and foreign policies of the United States caused a sudden shrinkage in the public's opinion of the value of American industry, estimated at \$17 billion. The market had had no shock comparable to this since the break on Black Tuesday in 1929. Some have suggested that this current drop in the market marked the end of an era, as the drop 26 years ago marked the end of the boom of the twenties.

Since the initial drop, the market has fluctuated without regaining the earlier level, but also, up to the present time, without continued succeeding losses.

Since so many references have occurred in the recent market break comparing it with 1929, I tried to find a chart showing the Dow-Jones industrial average of stock prices on a daily basis for this earlier period in order to compare it with the break we have just experienced. I wanted to see, for instance, what the general pattern had been 26 years ago and whether the pattern we are developing at the present time has any similarities. I could not find such a chart, and, thinking that some of our subscribers might want to refresh their memories, I have prepared one. The chart on the following page shows in blue the daily range in prices from the peak in 1929, for the period that followed, and in red I have superimposed, charted in a similar manner, the Dow-Jones industrial average for the period we have just come through.

This chart has been drawn in such a way that equal percentage changes in the figures will result in equal jogs in the line. In other words, it makes possible

a direct comparison of the percentage fluctuations of the Dow-Jones industrial average in the period following 1929 with the present period, even though the Dow-Jones average at the present time is considerably higher.

Even a casual study of the chart opposite will show a great dissimilarity between the recent market break and the one 26 years ago. While it is always impossible to predict what the market may do in the future, there are no indications at the present time that the stock market has recently indicated the end of our present boom.

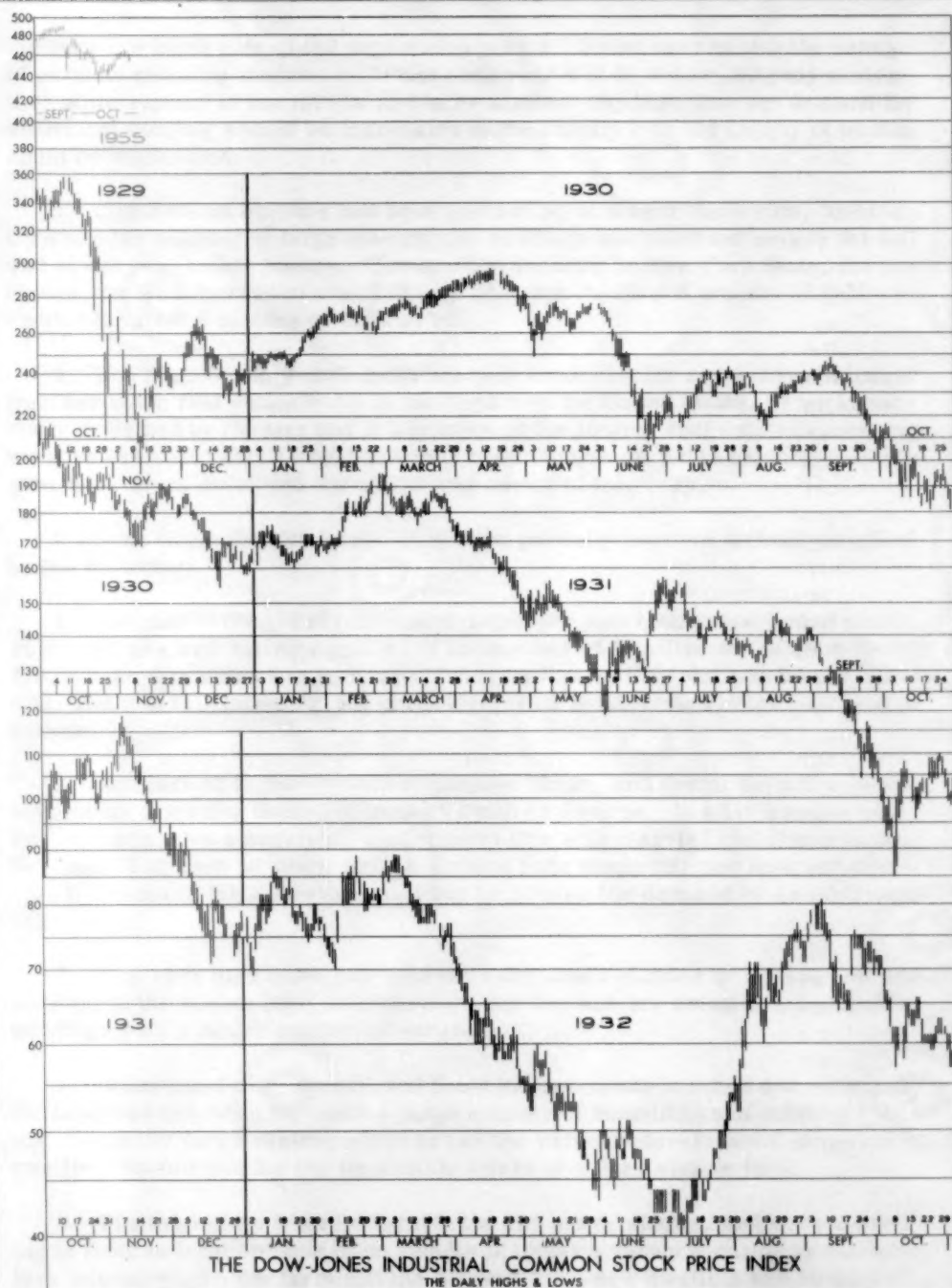
Let us, however, review briefly the various factors operating today which are affecting the real estate outlook. First, it might be well to list those factors which are supposed to be negative and which at the present time seem to some to be limiting the volume of new building.

1. Foremost on the list of builders, real estate men, and mortgage lenders would be the tightening of credit. The Federal Reserve and the Administration were justifiably worried this summer about the possibility of loose credit bringing on a higher degree of inflation, and I think rightly determined to tighten credit, not only for real estate but throughout the economy. The brakes were applied, and while it is always difficult and almost impossible to apply them without some disastrous effects, I believe that the feverish pace which we were following has been slowed down. I would not be at all surprised if the pressure on the brakes were lessened as we approach and go into 1956.

2. Undoubtedly the housing shortage is no longer so acute as it was some time ago. There are no regular figures taken on residential vacancy unfortunately, but our figures on the number of newspaper advertisements appearing in the principal metropolitan areas advertising places for rent show a current level in the number of these advertisements 16% above the level of 1940, before the housing shortage developed. The pessimistic implications of this, however, must be greatly modified when it is realized that the number of urban families in these metropolitan areas is now 60% greater than it was in 1940. Viewed in this light, the number of advertisements, although it has increased sharply over the lows of 1946 and 1947, is still relatively low. Our studies of the amount of housing produced in relationship to the expanding demand have convinced us that we are still short in the United States probably somewhere between 2 and 3 million dwelling units.

3. Building costs are at an alltime high and are still advancing gradually. If real incomes continue to increase, it is my opinion that increased building costs will not prevent a sizable volume of building.

4. The marriage rate is at a long cyclical low with fewer marriages taking place than have taken place in any year, with only one exception, in the past 14 years. We can expect no immediate, rapid increase in the number of marriages, as the number of persons of marriageable age is near the 30-year low because of



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the very low birth rate of the depression period. From here on out the number of persons reaching marriageable age each year will increase, slightly at first, then quite rapidly in the middle and later sixties. By that time the demand for additional housing should be increasing more rapidly than the supply of houses could be augmented.

5. Commercial building has been proceeding at a very rapid rate, and historically the building of large commercial buildings has occurred toward the tail end of our real estate booms. Commercial building in New York State, for instance, in 1954 increased over 1953 by 20%, but the first 9 months of 1955 exceeded the first 9 months of 1954 by 57%.

6. The present real estate boom has been continuing for several years longer than any other real estate boom in the history of the United States. This is partially explained by the fact that it has followed the longest real estate depression we have ever had, and it would naturally take a longer period to catch up with the shortages which developed during the long period of inactivity.

It seems to me that the foregoing at least partially negative factors are offset by the following:

1. Because of the greatly increased output per man hour in the United States, real incomes are rising rapidly. The number of families in the \$4,000-to-\$10,000-a-year class has increased twice as fast as the total number of families, and it is this income group particularly that is interested in the purchase of houses.

2. Because of higher incomes, pension plans, and Social Security, fewer households are being dissolved through death or divorce. In a far smaller number of cases does a surviving parent go to live with married children than was the case 25 or even 10 years ago. A divorce quite frequently now does not eliminate the demand for a dwelling unit but increases the demand by an additional unit.

3. The very high birth rate and the very small number of square feet per building in the houses built immediately after the war are creating a demand for buildings with a larger number of square feet.

4. Widespread city, county, and State improvements in roads and other public facilities are bringing about a large number of demolitions of existing housing. In many large metropolitan areas the urban redevelopment program is swelling demolitions for the immediate future to a very sizable total.

5. The migrations from the farm to the city are continuing, and since a dwelling is fixed in location, this often results in either a vacant dwelling or one used less intensively on the farm and the demand for a new dwelling unit in the city.

Other migrations from the city to the suburbs and from State to State are creating shortages of housing in many areas which have had heavy in-migration.

6. Technological changes in housing have been coming at an accelerated rate. The almost universal use of many varieties of electrical appliances has made the wiring in most buildings more than 15 or 20 years old almost totally obsolete. Higher standards of living are putting new emphasis on additional plumbing fixtures, and in better housing, on air-conditioning. Practically all new buildings being built are now one story in height, making the two- and two-and-a-half-story buildings of a generation ago less desirable to the more discriminating buyer in today's market.

7. Existing housing, in spite of many obsolescent factors, is continuing to sell, and so far there has been little weakening in the average selling price. Our own index is continuing to go sideways or to inch upward.

Taking into consideration the various negative and positive factors operating at the present time, it seems to me that we can reach the following conclusions:

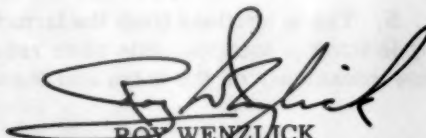
1. The drop in the stock market during the last week in September and so far in October is due to a shock to confidence in the continued leadership of Mr. Eisenhower. It is not due to any widespread belief that business has "topped out," and that we are now in a declining market.

2. With both advancing construction costs and firm prices on existing buildings, distress properties will not appear on the market in any number in the immediate future and there is no reason to expect any radical increase in the foreclosure rate.

3. With housing demand in many communities still strong in relationship to supply, it is probable that we will continue to build during 1956 at a rate probably lower than the rate in 1955, but not greatly lower.

4. Although the credit for housing and for new construction at the present time is tight, it seems quite probable that the tight money policy of the Administration will be loosened toward the end of the year and that sufficient credit will be available during 1956 to build around 1,200,000 new dwelling units.

It is axiomatic, however, that the longer a boom continues the closer it is to its end. It may be that any sizable readjustment in the real estate field can be avoided, but this is still questionable. I would advise a conservative policy at the present time, but see no possibility of any immediate collapse.



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